Today’s Mortgage Process & Programs

If you’re thinking about qualifying for a mortgage to buy a home this year, knowing the minimum borrowing guidelines can help you find the best loan program. In 2022, there will be mortgage options available at higher loan amounts that reflect rising home prices in many parts of the United States.

Let’s look at how much mortgage you can qualify for by looking at the guidelines for the most common loan types. Real estate practitioners always recommend getting in contact with a lender as soon as possible not just to apply, but to understand the mortgage process and financing solutions. Lending criteria vary by the type of mortgage and lender. Rates and fees also vary. Buyers need to ask questions in understanding closing cost estimate and how to structure they home purchase if they need seller concessions.

When finding a mortgage that’s right, many factors come in to play. If you are a first-time homebuyer looking for affordable options, you may qualify for a number of special programs based upon income, how much they can afford towards a down-payment, their credit history, and even the location and condition of the property they would like to purchase.

Prior to previewing homes, buyers should know what they can afford to offer, what their needs vs wants are, understand the community and neighborhood they are moving to, the buy and repair programs for aging inventory that needs remodeling and the pros and cons of new construction versus an existing home.

Fair Lending Law
It is illegal to discriminate against credit applicants on the basis of race, color, religion, sex, marital status, national origin or ancestry, and conditions, characteristics, or trends in the neighborhood or geographic area surrounding a housing accommodation.

Is your Buyer Ready, Willing and Able to Buy Today?”
“Ready, willing and able” is a phrase used in real estate to refer to a prospective buyer of property who is legally capable and financially able to consummate the deal. Prior to the home buying process begins, interview the buyer. They should be able to say:

- “I’m better off buying than renting”
- “The house I can afford meets my current and future expectations”
- “I have good credit”
- “I understand the cost of homeownership”
- “I am comfortable with what I can afford”
- “I understand my financing options”
- “I’m financially stable”
- “I have a reserve of cash saved”
- “I am prepared for home maintenance, repairs, upkeep in lawn care and landscaping of the property”

Determine Home Affordability
According to Bankrate.com, 1 in 4; 25% Americans has no emergency savings. 69% of Americans have less than $1,000 in savings. Only 26% of Americans have less than three months’ expenses. Financial instability is lingering as a result of the pandemic 2020 (gas prices, 35% in groceries, utilities bill increases, health care, rental, etc.) nearly 40% of the country's poorest households suffered from unemployment as millions of low-wage positions were eliminated.

Affordability is determined by subtracting financial, family and required payments associated with homeownership from monthly net household income. Assessing and measuring affordability is accomplished by creating and reviewing a detail daily life style budget. The budget conclusion should indicate that income exceeds financial obligations.

Although underwriting is based on a careful assessment of mortgage credit risk such as:

- **Credit and Income History, Assets and Liabilities**: The borrower’s ability to repay the loan
- **Equity and Down Payment**: The borrower’s commitment
- **Appraisal**: The marketability of the property and the justification of its value

There are 3 very important factors that are considered when underwriting and weighing risk.

- **Residual income** - Residual income is the amount of discretionary income leftover each month after paying all major expenses, including mortgage payment. Residual income varies by location, loan amount and family size.
- **Payment shock** - Put simply, payment shock occurs when, rather suddenly, someone is obligated to pay more in monthly debt than they can afford from their income.
- **Reserves** – Mortgage reserves are the assets, like cash, that you have easy access to if you were to need help covering your mortgage payments. Lenders generally require 2 months of reserves. But keep in mind that some lenders may ask up to 6 months of reserves.

Residual-Income Affordability
Residual-income affordability needs to be interpreted carefully. As a cash-flow measure, it captures the month-to-month financial challenge in running a household and it should be based on a true monthly household budget.

The Consumer Financial Protection Bureau requires lenders to limit the total debt-to-income of 43% based on gross monthly income and the proposed mortgage payment (principle, interest, taxes, insurance and community association fees) plus other financial obligations noted on the credit bureau report such as credit cards, car loans, student loans, etc.

It is important to compare the lenders calculation of an affordable mortgage payment to a true household budget and net monthly income. Buyers need to be comfortable in the share of income devoted to a monthly household budget without causing serious hardship in living cost necessities. This concept is “residual income affordability” that focuses on the resources that homeowners have left over after purchasing a home to sustain homeownership, contribute to the welfare of the family along with establishing a savings pattern for unexpected financial needs.

The best approach is to work with a housing counselor or a mortgage professional to determine exactly what the buyer can afford, both from a loan approval standpoint, as well as a comfort level for making the monthly payments. Therefore, todays’ buyers may buy a less expensive property after reviewing their monthly budget for long-term affordable, sustainable ownership. https://www.hud.gov/findacounselor - 800 569-4287

Below are the recommendations for required residual income for loans over $80,000:

- Family size of 1 : $441
  Family size of 2 : $738

Family size of 3 : $889
Family size of 4 : $1,003
Family size of 5 : $1,039
For each additional family member, add $80 up to a family of 7

Payment Shock

If a lender requires 120% residual, then a household of 4 would need $1203.60 left over every month in residual income and can be defined in several ways, but it is essentially any significant increase in monthly liability that heightens the risk of loan default. Payment shock is a term used to describe when a borrower's mortgage payment is much higher than their previous housing payment.

Take for example, a couple is shopping for a new home. They find a home for $250,000. Their taxes will be $250 per month and their insurance will be $50 for a total monthly principle, interest, tax and insurance (PITI) payment of $1,600.

If the couple has been making rent payments of only $600, this would be considered payment shock. It does not mean that every borrower with payment shock is a risk. It is simply another thing that is considered when weighing risk and ability to repay. If that same couple had a monthly income of $10,000, would the increase payment come as a big surprise? They most likely could handle the new payment. Then payment shock may not come into consideration. But if that same couple had a monthly income of $4,000, then payment shock would definitely come into consideration. So, there are other factors the lender will consider when a borrower has payment shock.

Reserves

Reserves are defined as liquid assets held by a bank or financial institution in order to meet expected future payments and/or emergency needs. True reserves are funds that the borrower has been able to save not borrowed from other sources (i.e., 401k), or received as a gift. Reserves are analyzed by how many months of mortgage payments (total PITI) they have in liquid assets left over after closing?

After a borrower purchases a home, they usually do not change their spending habits, they may even increase. They will still go out to eat, go on vacation, go shopping, etc. If their mortgage payment greatly increases and they have not been able to save but they continue or increase their same spending habits, they may not be able to make their mortgage payment. The amount varies from mortgage loan applicant to mortgage loan application. Gift funds cannot be used for reserves.

If a borrower has been living rent free, or only paying $300/month in rent, and their new mortgage payment will be $1100/month, then they should have established a pattern of savings and have reserves.

If they have no reserves to be ready for that kind of increase, we have to first ask why and then ask- "will the borrower be able to pay?"

Exhibit "A" How to Calculate Gross and Net Income – Page 20

Exhibit "B" Your Household Budget – Page 21

Loan Calculations

http://www.anytimeestimate.com/VA_LOAN_CALCULATORS/va-residule-calculator.htm

Affordable Lending Programs
There is a need in today's marketplace for more responsible mortgage products that enable creditworthy homebuyers, who meet certain income limits and other requirements, to become homeowners at an affordable entry point with comprehensive counseling.

The impact of affordable lending increases homeownership opportunities in all home value price ranges. Consistently, changes in underwriting guidelines are found to have greater impacts than changes in the costs of borrowing for all low- and moderate-income home buyers. Affordable lending programs include down payment assistance, 100% financing, 80/20 loans, 3% down payment. Rate buy downs, adjustable-rate mortgages, interest only HELOC, etc. Such programs may have restrictions and non-standard guidelines.

Homeownership Programs
There are approximately 2,400 homeownership programs available across the country, including grants, forgivable loans, tax credits and more. In fact, they can be as unique as the homebuyers and communities they serve. Homebuyers should investigate these financing options early in their home buying journey.

These programs include loans, grants, tax credits and other programs for eligible homebuyers that can help them achieve the down payment faster, cover closing costs and get into a home sooner than they would have otherwise.

Homebuying Assistance Programs are Different from Standing Loan Requirements - Be aware:

- Single family detached, Townhome, Condo, PUD attached, PUD detached
- Downpayment assistance funds are available on a first come, first serve basis
- May require the homebuyer to be a first-time homebuyer, meaning that they have not owned a home within the last three years
- You may not be able to add and layer other programs together
- Not all lenders participate in down payment assistance programs
- 100% gift funds may be allowed
- Interest rate slightly higher than market rated – fixed, no adjustable rate
- Buyer minimum investment i.e., $1,000
- No debt-to-income overlays
- No reserve funds required in most situations
- Require work history 2 years employment
- Only certain areas of the state may qualify, i.e., rural areas
- Each city and county have their own programs limited to specific areas
- Purchase price limitation
- Income limitations - Entire household income
- Credit score requirement
- Reserve requirements and or limits after closing
- The down payment assistance usually is provided in the form of a second lien placed against the qualifying property for a set period of time
- Takes longer to close this type of transaction - Allow 60 – 90-day closings
- Bankruptcy: Chapter 7 or Chapter 13 discharged minimum 1-4 years
- Liens paid prior to application
- Foreclosure - Settled for a minimum 3-7 years with credit re-establish
- Judgements paid prior to application
- Collection accounts may or may not be required to be paid in full
- Credit history – one housing-related source, rent payment history 12 months

- Total Debt-to-Income ratio – 43% if credit score is >700, 40% with credit score 699-680, non-traditional credit is 40%
- Mortgage insurance not applicable on many down payment assistance programs
- Work history two years
- May use secondary financing, such as an affordable second loan, grants, or even cash they have on hand
- May consider non-traditional forms of credit to demonstrate credit history
- Income cannot exceed 100 percent of the HUD area median income
- Minimum credit scores as low as 580
- Pair with down payment assistance (DPA) up to 105% CLTV with 2nd lien
- Reduced mortgage insurance requirements
- Flexible underwriting when the loan passes an automated underwriting system approval
- Arm’s length transaction
- Primary residence or rate/term refinance
- No upfront points or fees are taken out of the down payment assistance
- A purchase rehab option is not available to combine with a first mortgage
- Amortization 30 years
- Homebuyers’ education program – HUD approved nonprofit housing counseling agency
- You do not need to live in the home for any set period of time
- May require more than one appraisal
- Two underwriting approvals

“Down Payment Assistance Programs”

- Tennessee Housing Development Agency - https://thda.org/homebuyers/down-payment-assistance, https://thda.org/programs
- HUD - https://www.hud.gov/states/tennessee/homeownership/buyingprgms
- Chattanooga Neighborhood Enterprise
- City of Clarksville – https://www.cityofclarksville.com/701/First-Time-Homebuyers-Program
- City of Memphis - https://www.memphistn.gov/government/housing-and-community-development/homeowners-homebuyers-and-renters/down-payment-assistance-program/
- https://www.firsthomebuyers.net/states/tennessee-first-time-home-buyer.html

What should you do if you’re trying to get a mortgage?
The roller coaster ride that mortgage lenders are experiencing isn’t all doom and gloom for you. In fact, there is a bit of a silver lining for mortgage borrowers. Until the economy settles down, mortgage lenders are trying to balance how much to pull back vs making good loans. Mortgage companies do not need a property address to process a mortgage application today. The sooner the buyer can shop, compare then select a lender, the quicker they can obtain a letter of commitment to present with they offer in convincing the seller they are the most appropriate buyer for they sales transaction.

Not all lenders are reacting the same way. This means some lenders have not instituted minimum score requirements as low as their competitors. Some lenders may not be hedging as much as others, which means lower rates. Now more than ever before, mortgage borrowers should shop around until they find a lender that can fit your needs.

- What are your minimum credit score requirements?
- How long do you expect it to take from application to closing?
- At what point can I lock my rate and for how long?
- What happens if my loan doesn’t close within the allotted rate lock period?

- Who will be responsible for rate extension fees if my loan doesn't close on time?
- Do you have a float-down policy if rates drop significantly after locking?
- Is the rate you're quoting me include any discount points?
- How does participating in a temporary forbearance program affect my credit approval?
- Do you have a 10-day pre-closing employment verification?
- How does a furloughed or laid off affect my mortgage application?
- What is your income verification documentation prior to closing? What is acceptable use of income during a business that is temporarily closed?
- What documentation is required to support a reasonable expectation of employment continuance during the uncertain economic conditions created by the pandemic, war, gas?
- Is there a minimum back to work and earning a certain level of earnings to support that the current income has stabilized when my income was interrupted or reduced, discontinued due to Covid-19 pandemic?
- Tax return requirements since the IRS filing date for 2022? How do you view forbearance on student loans?
- How do you count monthly payment for liability that are deferred or placed in forbearance as a result of COVID-19 pandemic to be included in the DTI (debt-to-income) ratio?

Unlike the housing crash more than a decade ago, the housing and mortgage markets are much healthier now. Homeowners have a record amount of equity, so there's less risk of home values dropping far enough to put many homeowners underwater (like what happened during the subprime mortgage crisis back in 2006).

What is the best credit score to buy a home?
Credit scores are crucial to the homebuying process. Not only does your FICO score determine if you can qualify for a loan in the first place, it will also have an impact on your mortgage and homeowners' insurance terms.

You don't need flawless credit to get a mortgage. In some cases, scores can even be in the 500s. But because credit scores estimate the risk that you won't repay the loan, potential lenders will reward a higher score with more choices and lower interest rates.

For most loan types, the credit score needed to buy a house is at least 640- 660. But higher is better, and borrowers with scores of 740 or more will get the lowest interest rates.

Economic uncertainty brought by the COVID-19 pandemic, gas prices, groceries, etc. has led many lenders to raise their minimum credit scores, even for mortgage products that should allow for lower credit scores. Borrowers who qualify with lower scores may be quoted higher rates and required to make a larger down payment. If your credit score is on the low side, it may make more sense to work on building it up before buying. www.homebuyersclub.com

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Homebuyers Club Sales Manager
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Credit Score Minimums by Loan Type

- **FHA Loan**: 500 – 579 will require 10% down, 580 or better 3.5% downpayment

- **Conventional Loan**: 620. Borrowers with higher scores also earn a break in the cost of private mortgage insurance, or PMI, which is required if they make down payments of less than 20% on a conventional loan. With a 10% down payment, a 620 borrower will pay 1.1% in PMI, a 760 FICO score a borrower would pay just 0.30%.
- **VA Loan**: 640. Mortgages guaranteed by the Department of Veterans Affairs, better known as VA loans, don't have a government-set minimum credit score to buy a house. Their main qualification is that you be a veteran, an active-duty member of the military or an eligible spouse. That said, VA lenders choose their own minimum credit scores. These vary, but are generally in the low to mid-600s.
- **USDA Loan**: 640. The U.S. Department of Agriculture don't have a set minimum credit score — and lenders can require their own score minimums. But if your score is over 640, you could be eligible for streamlined credit processing on a USDA loan.
- **Jumbo Loan**: 700. In order to get a mortgage that's larger than the conforming loan limit (**$647,200 2022, $715,000 for 2023)** better known as a jumbo loan most lenders will want to see a credit score that's north of 700 or even 720. Because lending that much money is inherently risky, lenders look for potential home buyers to have solid financials, including a strong credit score.

Of course, we have other types of loans for a condo purchase, self-employed and no W2s or tax returns required also known as Non-QM Home Loan which is designed to help homebuyers who can't meet the strict criteria of a qualifying mortgage. In addition, underwriting guidelines and credit scores are different for refinancing based on home equity as well as second mortgages and home equity loans, i.e., HELOC.

Resource - Mortgage Products by Type

- **Freddie Mac** - http://www.freddiemac.com/singlefamily/mortgages
- **Fannie Mae** - https://www.fanniemae.com/singlefamily/mortgage-products
- **FHA** - www.fha.com/fha_loan_requirements - portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1
- **VA Lenders Handbook** - www.benefits.va.gov/warms/pam26_7.asp
- **USDA Lenders Handbook** – www.rd.usda.gov/publications/regulations-guidelines/handbooks
- **National Mortgage Licensing Systems Consumer Access** – www.nmlsconsumeraccess.org

FICO Score

More than 90% of the top lenders use FICO scores when making lending decisions. Your credit score is a three-digit number that indicates your creditworthiness in a nutshell. It's not a complete snapshot of your overall financial picture, but lenders look at it when evaluating you for credit cards, loans and mortgages.

But like all things in the financial world, credit scores have many levels of merits. There are actually multiple versions of your credit score, and they all mean different things to lenders.

Your FICO Score is calculated by the data analytics company Fair Isaac Corporation, and it's based on data from your credit reports.

While the FICO® 8 model (Most updated version is FICO 10T) is the most widely used scoring model for general lending decisions, banks use the following FICO scores when you apply for a mortgage:

- FICO® Score 5 (Equifax)
- FICO® Score 2 (Experian)
- FICO® Score 4 (TransUnion)

As you can see, each of the three main credit bureaus (Equifax, Experian and TransUnion) use a slightly different version of the industry-specific FICO Score. That's because FICO tweaks and tailors its scoring model to best predict the creditworthiness for different industries and bureaus as well as territory. You're still evaluated on the same core factors (payment history, credit use, credit mix and age of your accounts), but the categories are weighed a little bit differently.

A lender will use all three bureaus, it's called a tri-merge. They use that median score as the qualifying credit score not the highest or lowest. If two of the three scores are the same, lenders use that one, regardless of whether it's higher or lower than the other one. If you are applying for a mortgage with another person, such as your spouse or partner, the lender identifies the median score for both parties, then uses the lowest of the final two.

How often do credit reports update?

If you're working hard to better your credit health, like paying down credit card balances or loans, you may be wondering when these positive actions will show up on your reports. Truthfully, there is no exact deadline or formula. Your credit reports are updated when lenders provide new information to the nationwide credit reporting agencies for your accounts. This usually happens once a month, or at least every 45 days. However, some lenders may update more frequently than this. So, say you paid down a credit card recently. You may not see your account balance updated on your credit report immediately.

You can get your credit report from each of the three nationwide credit reporting agencies weekly at **annualcreditreport.com**. 877-322-8228

Why Do Credit Scores Fluctuate?

If you're tracking your credit scores over time, you may notice the three-digit numbers may change, even if the credit score is generated by the same credit bureau or company. It's completely normal for credit scores to fluctuate. But why does this happen?

- Information in your credit reports is updated as it is reported to credit bureaus
- The passage of time can also cause changes in credit scores
- Changing information. When your report is updated with new, revised information it can alter your score, i.e., balance changes, the opening of new accounts, payments on existing accounts.
- Difference among credit bureaus. Some creditors report to all 3 and some do not.
- It's about time. Paying on time.
- Payment history.
- Debt-to-Credit ratio. Your debt to credit ratio is how much of your available credit you're using, and it also factors into credit scores and may cause credit scores to fluctuate. For instance, if your credit card balances change month to month, and the amount of available credit you're using changes, you may see fluctuations in credit scores as well. Even the number of payments made has an influence.

Your Free Credit Reports

Under federal law, consumers can receive one free copy of your credit report every 12 months from each of the three credit reporting agencies (Equifax, Experian, and TransUnion). Plus, as a Georgia resident, you are entitled by the Fair Business Practices Act to receive two *additional* free credit reports from each credit reporting agency per year.

Equifax - https://consumer.georgia.gov/contacts/equifax-credit-information-services-inc 800 685-1111
Experian - https://consumer.georgia.gov/contacts/experian-national-consumer-assistance-center 888 397-3742
TransUnion - https://consumer.georgia.gov/contacts/transunion-consumer-relations 800 916-8800

Rapid Rescoring
It takes time to improve your credit, but your buyer may not have the luxury of waiting on creditors and credit reporting agents. Especially when they have a home under contract.

Working with creditors on your own, actions you take today can take 30 days or more to show up in your credit reports.

Rapid rescoring is a service that lenders use to make quick updates to your credit reports. The goal is to improve the information in the buyer’s credit history, resulting in a higher credit score. By removing negative items, reducing loan balances, and fixing errors, it may be easier to get approved for a low-cost loan.

The process is called “rapid” because updates are accelerated. Instead of waiting for information in the credit reports to be updated by regularly scheduled batch reports, the buyer can manually update that information with the help of the lender. For example, if you pay off a credit card, that information can be pushed to a credit bureau a few days after your payment is received, and the lender then request an updated credit score from that credit bureau.

Rapid rescoring isn’t something you can do on your own. To use the service, you’ll need to work through a lender. The lender has relationships with third-party service providers who handle the logistics of updating your credit, and your lender also has the information needed to determine if rapid rescoring will be helpful.

How Much Does It Cost?
Rapid rescore is a service that your lender provides, and you typically don’t pay a fee for the service. Lenders are not allowed to charge a separate fee for the service under federal law (FCRA).

How Long Does It Take?
“Rapid” means different things to different people. Some rescoring service providers promise two to five-day turnarounds. Realistically, you should expect the process to take a week, and a reputable lender can provide more detailed guidance.

No Credit
People with no credit often have the most difficult time getting approved for the credit card.

That’s often because you don’t have a credit score yet and you won’t have one until you have at least one active account on your credit report for six months. Some credit card issuers realize that people have trouble getting a credit card for the first time and they've made credit cards specifically for people with no credit.

The following Credit Cards and Prepaid Debit Cards are for people with limited or no credit history. Compare offers side by side and apply online for the card that is right for you.

Compare credit cards here - CreditCards.com http://www.creditcards.com/no-credit-history.php

FHA Loans
The FHA program is a government insured loan with guidelines suitable to help people with certain credit needs this loan was created to help people obtain homes with secure low monthly payment to make the dream of owning more obtainable by all borrowers and credit types.

One benefit that is still readily available across the country is down payment assistance. You may not know that your FHA loan can also be combined with a down payment program, helping you save on the down payment and closing costs–and maybe even ongoing tax credits.

Some of the other benefits of FHA financing:

- Owner occupant buyer, no second homes
- Streamline refinance, cash-out refinance
- Allows co-signer – non occupant
- Low credit score…down to a 580, 500 with a 10% down payment
- Down payment of 3.5% - 10 percent can be a gift
- Some closing costs can be financed
- Lower monthly mortgage insurance premiums
- More flexible underwriting criteria than conventional loans
- FHA limits the amount lenders can charge for some closing cost fees (e.g., the origination fee can be no more than 1% of mortgage)
- Loans are assumable to qualified buyers
- No prepayment penalty
- Purchase after a short sale, foreclosure, bankruptcy
- Renovation products
- Mortgage servicing guidelines regarding delinquent loans
- FHA loan limits: $420,689 Hamilton County

Resources

- **FHA Mortgage Limits -** https://entp.hud.gov/idapp/html/hicostlook.cfm
- **FHA Loan** - https://portal.hud.gov/hudportal/HUD?src=/buying/loans
- **Housing Counseling Agency -** https://portal.hud.gov/hudportal/HUD?src=/i_want_to/talk_to_a_housing_counselor
- **Home buying process** - http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203b--df

FannieMae. Freddie Mac

Conventional Loan Features
Innovative underwriting flexibilities expand access to credit responsibly.

- Can use to buy a primary residence, second home, or rental property
- Purchase, refinance, cash-out refinance
- Available in fixed rates, adjustable rates (ARMs) with loan terms from 10 to 30 years
- Down payments as low as 3%
- No monthly private mortgage insurance (PMI) with a down payment of at least 20%
- Prepayment penalties, balloon notes are allowed
- Mortgage insurance is cancelable when home equity reaches 20% (unlike with the federal government-backed FHA loans)
- Downpayment – 3% this varies with your personal situation and the type of property you are buying.

- Loan limits: 1-unit home $647,200, 2022, 2023 is $715,000, 2-unit home $828,700, 3-unit home $1,001,650, 4-unit home $1,244,850. – High-cost markets $970,800
- For homes that exceed the conforming loan limit, borrowers may be able to purchase with a jumbo loan
- Single-family homes (attached and detached)
- Condominiums
    - All common areas must be complete and owned by the unit owners or HOA
    - At least 51% of the total units in the project must be owner-occupied or second homes
    - The HOA must have an adequate budget
    - At least 90% of the units must be sold and currently owned by unit owners (existing projects)
    - No single entity may own more than 10% of the units in the project
    - The project must be adequately covered by insurance
- Manufactured homes
- Fannie Mae – HomeReady, HomeStyle Renovation, HomeStyle Energy, Manufactured Housing
- Freddie Mac – Home Possible Mortgage, Home Possible 95% LTV – Income flexibility, primary residence only CHOICERenovation Mortgage, HomeOne – First Time Homebuyers, Affordable Seconds. Green CHOICE Mortgages, Mortgages 2-4 Units
- Community development programs for teachers, fire fighters, police officers, military, etc.

Resource

Fannie Mae - www.fanniemae.com/homeready
Freddie Mac - http://www.freddiemac.com/homepossible

VA Affordable Lending

VA guaranteed loans are made by lenders and guaranteed by the U.S. Department of Veteran Affairs (VA) to eligible veterans, Servicemembers, Reservists, National Guard members and certain surviving spouses for the purchase of a home or, retain and adapt a home for those with disabilities and to refinancing.

The guaranty means the lender is protected against loss if you fail to repay the loan. In most cases, no down payment is required on a VA guaranteed loan and the borrower usually receives a lower interest rate than is ordinarily available with other loans.

Other benefits of a VA loan include:

- No Loan Limits for 2022
- No down payment
- Negotiable interest rates
- Limitation on buyer's closing cost
- No private mortgage insurance requirement
- Right to prepay loan without penalties
- Two refinance options
- VA has their own approved appraisers'
- The VA mortgage can be taken over (or assumed) by the buyer when a home is sold
- Counselling and assistance available to veteran borrowers having financial difficulty or facing default on their loan
- Grants and loans for disabled veterans

- Foreclosure avoidance programs

Although mortgage insurance is not required, the VA charges a funding fee to issue a guarantee to a lender against borrower default on a mortgage. The fee may be paid in cash by the buyer or seller, or it may be financed in the loan amount.

A VA loan can be used to buy a home, build a home and even improve a home with energy-saving features such as solar or heating/cooling systems, water heaters, insulation, weather-stripping/caulking, storm windows/doors or other energy efficient improvements approved by the lender and VA.

Veterans can apply for a VA loan with any mortgage lender that participates in the VA home loan program. A **Certificate of Eligibility** from the VA must be presented to the lender to qualify for the loan.

Resource
VA Loan - http://www.military.com/money/va-loans

USDA or Rural Housing Loans
USDA loans are made on properties within a qualifying rural area. Applicants with very low to moderate incomes can qualify for these loans, but still able to afford the housing payments, including the principal, interest, and insurance that are part of the monthly payment amount.

https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-guaranteed-loan-program

Benefits of a USDA loan include:

- Affordable to those with lower incomes and good credit histories
- No required down payment – 100% financing of purchase price; up to 102.75 LTV
- All income of all household members – adjusted total cannot exceed USDA income limits
- Non-occupant co-borrowers or co-signers are not allowed
- Loan to cover land and construction cost
- Closing costs and lender fees can be rolled into the loan– if appraised value is over purchase price
- While a minimal amount of trade lines is required, the UDSA loan allows borrowers to use alternative trade lines in place of regular trade lines when they are not available
- New manufactured homes are acceptable as long as conditions are met
- The seller is allowed to pay up to 6% of the sales price towards the borrower's closings costs
- Available in 30-year or 15-year fixed rate mortgages
- Renovation and repair costs can be rolled into the loan amount, grant program for low-income households
- The property doesn't have to be a farm or open land to qualify for this type of loan. It just has to be in a qualifying area.
- No prepayment penalty
- Income limitations set by USDA

Single Family Home Loan Guarantees
This program assists approved lenders in providing low- and moderate-income households the opportunity to own adequate, modest, decent, safe and sanitary dwellings as their primary residence in eligible rural areas.

Eligible applicants may build, rehabilitate, improve or relocate a dwelling in an eligible rural area. The program provides a 90% loan note guarantee to approved lenders in order to reduce the risk of extending 100% loans to eligible rural homebuyers.

USDA Funds backed by loan guarantees can be used for: (Special Design Features)

- New or existing residential property to be used as a permanent residence. Closing cost and reasonable/customary expenses associated with the purchase may be included in the transaction
- A site with a new or existing dwelling
- Repairs and rehabilitation when associated with the purchase of an existing dwelling
- Refinancing of eligible loans
- Special design features or permanently installed equipment to accommodate a household member who has a physical disability
- Reasonable and customary connection fees, assessments or the pro rata installment cost for utilities such as water, sewer, electricity and gas for which the buyer is liable
- A pro rata share of real estate taxes that is due and payable on the property at the time of loan closing. Funds can be allowed for the establishment of escrow accounts for real estate taxes and/or hazard and flood insurance premiums
- Essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, heating and cooling equipment as long as the equipment is conveyed with the dwelling
- Purchasing and installing measures to promote energy efficiency (e.g., insulation, double-paned glass and solar panels)
- Installing fixed broadband service to the household as long as the equipment is conveyed with the dwelling
- Site preparation costs, including grading, foundation plantings, seeding or sod installation, trees, walks, fences and driveways

Property Eligibility - https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp&NavKey=property@11

How are mortgage loans approved?
There are several factors involved in the approval process of your mortgage application. These include your income, the continuous income, your current debt load, your credit history, your employment history and the property itself.

Each applicant’s specific situation is different and all these factors need to be evaluated by a mortgage lender during the approval process. (The buyer’s credit report, bank statement, previous addresses match the lender’s mortgage application)

What is a debt-to-income ratio?
There are two types of ratios lenders evaluate:

Front-end ratio: Also called the housing ratio, this shows what percentage of your income would go toward housing expenses. This includes your monthly mortgage payment, property taxes, homeowners’ insurance and homeowners’ association fees, if applicable.

Back-end ratio: This shows how much of your income would be needed to cover all monthly debt obligations on the credit report. This includes the mortgage and other housing expenses, plus credit cards, auto loan, child support, student loans and other debts. Living expenses, such as utilities and groceries, are not included in this ratio.

So, with $6,000 in gross monthly income, your maximum amount for monthly mortgage payments at 28 percent would be $1,680 ($6,000 x 0.28 = $1,680). Your maximum for all debt payments, at 36 percent, should come to no more than $2,160 per month ($6,000 x 0.36 = $2,160).

Debt-To-Income Ratio Based Gross Month Income

- **FHA –** 43% of less of the monthly gross income and varies based on credit score. Front-end DTI (housing payment) should be 31% less.
- **Conventional -** DTI of 45% or less, but may bump it to 50% with higher credit scores and additional mortgage reserves.
- **VA -** Total DTI ratio of no more than 41%. However, higher DTI ratios may be allowed if you meet the residual income test.
- **USDA -** The front-end DTI (housing payment) ratio maximum is 29%, while the back-end DTI ratio (total debt) maximum is 41%. USDA borrowers with a credit score of 680 or higher may qualify with higher front- and back-end DTI ratios of 32% and 44%, respectively, with proof of steady income and extra cash reserves.

Closing Cost
Closing costs are fees associated at the closing of a real estate transaction and can be incurred by either the buyer or seller. These fees vary widely between 2 and 9 percent of the selling price of the property.

- FHA allows Seller maximum contribution towards closing cost is 6%
- Conventional - Single Family or Second Home – Down payment less than 10% Seller maximum contribution towards closing cost is 3%
- Conventional - Single Family or Second Home – Down payment is 10 - 20% Seller maximum contribution towards closing cost is 6%
- Conventional - Single Family or Second Home – Down payment is 25% or more Seller maximum contribution towards closing cost is 9%
- Conventional - Investment property – Any amount of down payment Seller maximum contribution is 2%
- VA - Seller may contribute up to 4% of the sales price, plus reasonable and customary loan cost on VA home loans. Example: If a buyer's core closing costs for things like appraisal, loan origination and title equal 2% of the purchase price and the seller agrees to prepay taxes, insurance, the VA funding fee, and a credit card balance equal to 3% of the sales price. This 5% contribution would be allowed because 2% is going toward bona fide loan closing costs.
- USDA - Seller may contribute up to 6% of the sales price toward the buyers reasonable closing cost

No Closing Cost Loan – Lender Paid Fees
There is no such thing as "no-cost" mortgage loan. The no cost loan option uses the additional revenue generated when a lender offers an above market interest rate to the buyer to pay the closing costs.

Simply put, if market rates for 30-year mortgages are 4.25%, and a lender offers 30-year mortgages at 4.75%, the lender earns more revenue at 4.75% than they do at 4.25%.

The incremental revenue is used to pay closing costs in the form of a "lender credit." Looking at the same $250,000 consumer, this option would result in a $1,304/month payment, $116 monthly savings and no increase in the existing principal balance.

The additional revenue to the lender generated by the 4.75% interest rate results in a "lender credit" of $5,000 which is used to pay closing costs.

Again, this may feel like "no costs" were incurred, but the consumer pays in the form of a higher interest rate and more interest paid over time. Closing costs and fees are part of a mortgage, and knowing what they are and how much they should be is a good idea.

Types of Home Renovation Loans - $425 billion industry in America today.

Conventional		
Type	**Best For**	**Advantages**
HomeStyle®	Older homes in established neighborhoods Appraiser-required or borrower requested repairs that add value to the home Appraiser-required or borrower requested repairs that add value to the home	Fewer costs by rolling repairs purchase/refinancing expenses into a single loan
HomeStyle® Energy	Affordable financing to borrowers seeking to improve the energy and water efficiency of their homes	Buyers can enhance the comfort of the home with upgrades that improve temperature regulation and guard against mold and other environmental hazards.
Buyer/Seller Funded Repair Escrow	Borrower-requested repairs or other home updates that will determine final appraisal	Creates dedicated account to cover costs of updates Funds can be provided by the buyer or seller Fewer costs by rolling construction and purchase/refinancing expenses into a single loan
Jumbo Renovation	Covers appraiser-required or borrower requested repairs on high-priced luxury homes that valued over $424,100 Can be used for refinancing or home purchase	Covers a dedicated account to cover non-structural repairs up to $250,000 Fewer costs by rolling repair and purchase/refinancing expenses into a single loan
Pool Escrow	Adding a pool	Creates dedicated account to cover cost of pool construction Fewer costs by rolling construction and purchase/refinancing expenses into a single loan
Weather-Related Escrow	The mortgage amount may be increased if the cost of energy-related weatherization items such as thermostats, insulation, storm windows and doors and weather stripping and caulking	Creates dedicated account to cover cost of weather-related escrow. Creating a better performance home.
Government – Insured		
Type	**Best For**	**Advantages**
FHA 203k Full/Standard	Refinancing or buying older properties Refinancing or buying a home requiring structural repairs or major renovation FHA Loan Limit $358,500	Low down payment requirement on new home purchase Low refinancing interest rates Fewer costs by rolling repair and purchase/refinancing expenses into a single loan

FHA 203k Streamline	Refinancing or buying a home that needs updating or repairs Cosmetic repairs, remodeling up to $35,000	Low down payment on new home purchase Low refinancing interest rates Less paperwork Fewer costs by rolling repair and purchase/refinancing expenses into a single loan
HUD REO with Repair Escrow	Purchasing a foreclosure home Foreclosed properties requiring minor repairs up to $5,000	Creates dedicated account to cover appraiser-required repairs Fewer costs by rolling repair and purchase/refinancing expenses into a single loan
USDA Repair Escrow	Refinancing or buying USDA property that needs updating or repairs.	100% financing for refinancing or home purchase in a USDA rural area Creates dedicated account to cover repairs Fewer costs by rolling repair and purchase/refinancing expenses into a single loan Maximum loan is $20,000 Maximum grant is $7,500 Loans and grants can be combined for up to $27,500 in assistance
VA Energy Efficiency Mortgage	Refinancing or buying an existing dwelling to add energy efficiency improvements	100% financing for refinancing or home purchase by a Veteran for modifications such as solar heating and cooling systems, caulking and weather stripping, furnace efficiency modifications, clock thermostats, new or additional insulation. Energy efficiency improvements up to $3,000 - $6,000
VA Renovation Loan	Refinancing or buying an existing dwelling to address repairs, corrections or revisions. One loan that includes up to $35,000 for repairs, corrections or revisions to the property.	100% financing for refinancing or home purchase 1 loan adding up to $35,000 for repairs, revisions or corrections to the property. The property must appraise "as though the repairs have already been done"

Resources

- Remodel or Move – www.remodelormove.com
- National Association of the Remodeling Industry – www.nari.org
- The Association General Contractors of Tennessee - https://www.tnagc.org/

Buyers may have limited funds for home updates, revisions, corrections, or replacement such as:

- Roofs, gutters and downspouts
- Decks, patios and porches
- Heating and cooling systems
- Windows, doors and exterior siding
- Plumbing and electrical systems

- Flooring
- Remodel the kitchen, bathrooms, finish the basement
- Add insulation and weather-stripping

Common Elements of Home Renovation Loans

- The buyer chooses the home and a contractor. Contractor must be approved by lender and qualifications vary.
- A work plan and itemized cost estimate for home revisions provided by the contractor are given to the lender
- The lender adds the renovation cost to the loan amount
- The appraiser looks at the plans, scope of work and comparables (comps) and determines the property's after-renovation value
- The loan closes and renovation funds are held in an escrow account
- Contractors must be financially capable of affording all the start-up costs and a portion of the ongoing expenses. Draws are available and once all the work is completed, contractors can request final payment of the remaining portion of the job cost according to the proposal that was submitted and approved by the buyer and the lender.

Properties Served by a Community Association Management Company
The Seller should be aware of the importance of obtaining association documents so that the homebuyer's time for review can begin. As the homebuyer, their duty is to review the documents and to indicate approval or disapproval within a specified time period.

Red Flags to Watch Out For
You should closely examine the association's inner workings during the due diligence period such as their rules, how enforceable its rules are, who's on the board, and how flexible or difficult they are to deal with.

Actually, read the rules and regulations, and check out the financials. Potential red flags include:

- About two-thirds of the association's budget should be operating expenses, i.e., water, lights, landscaping and the rest should be set aside in the reserve fund for exterior painting, roof replacement
- No more than 15% of units can be arrears for more than 60 days
- If more than 50% of maintenance liabilities are not funded
- If the association has less than two months of reserve funds – 10% of budgeted income must go toward a reserve account
- If the association is involved in any lawsuits
- No more than 10% of the total units can be owned by one entity, i.e., LLC, Corporation, Partnership
- No more than 30% of the units are rental or investment owned. Local city, county ordinances may control and impose more restrictive requirements
- If the homebuyer is using FHA financing, the community must be approved by HUD/FHA. No more than 50% concentration of FHA loans in community.

Other Recommendations for the Homebuyer

- Review the last three meetings' notes
- Verify the age of the roof, siding, windows, pool, tennis courts and what the planned needs are for the future
- Ask if the amenities in working order?
- Learn how the title of the units is held?
- Inquire if the unit owners have sole ownership interest and the right to the use of the project facilities?
- Verify if the project allows the units to be leased or rented for less than a 30-day period?

- Confirm the unit assessment/common charges for all units. Are they the same per month or not the same.
- Ask if there any special assessments now approved?
- Confirm if the project is self-managed or managed by a management firm?

Resources

- FHA Condo Approval - https://entp.hud.gov/idapp/html/condlook.cfm
- VA Condo Approval - https://vip.vba.va.gov/portal/VBAH/VBAHome/condopudsearch
- Fannie Mae Condo, Co-op and Planned Unit Development - https://www.fanniemae.com/singlefamily/project-eligibility#

TRIO Lease-To-Own Mortgage

Trio's lease-to-own financing program provides additional options for potential homeowners that are unable to qualify for a traditional mortgage. Many of our customers are first time homebuyers, younger families not yet convinced that they are ready to purchase, persons relocating to a new area, and buyers rebounding from financial hardship. By partnering with Trio, you'll be able to offer these customers a fixed monthly payment, a purchase option price as low as cost plus 1% (fixed for the life of the lease!) and an assumable FHA mortgage that locks in today's low interest rates for 30 years.

Trio's purchase process is unique. It provides a one-to-three-year lease-to-own financing with the right to purchase. Trio has offered similar lease-to-own programs helping Americans achieve their goal of homeownership for 20 years.

Trio Financing Solves Qualification Challenges

When potential buyers do not qualify for available mortgage finance programs, Trio steps in to increase homeownership opportunities.

It is a win-win solution for all participating parties, i.e., the buyer, the seller, the preferred lender, appraiser, closing attorney, home inspector, home warranty company, insurance company, real estate practitioners and the community has a new neighbor.

- www.thinktrio.com
- www.trioresidential.com

Homeowners Education Options – CreditSmart

This self-paced tutorial outlines the steps to homeownership from the importance of good credit to qualifying for a loan and selecting a lender, with a special emphasis on protecting your investment once you own a home.
There are five lessons in this course, including:

- Your Credit and Why It is Important
- Managing Your Money
- Thinking Like a Lender

- Becoming a Homeowner
- Preserving Homeownership – Protecting Your Home Investment
- Freddie Mac – Credit Smart https://sf.freddiemac.com/working-with-us/creditsmart/terms-of-use

FDIC Money Smart

Money Smart is a comprehensive financial education curriculum designed to help low- and moderate-income individuals outside the financial mainstream enhance their financial skills and create positive banking relationships.

Resource

- https://sf.freddiemac.com/working-with-us/creditsmart/terms-of-use

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Exhibit A

How to Calculate Gross and Net Monthly Income

Gross income essentially refers to your total compensation (base salary) before taxes or other deductions.
If your client is paid:

Calculate Net Income (After taxes) = Gross Income x .75 **Difference**

Hourly $ ____________ (Pay before deductions) **x** _____ # of hours worked in 1 week **x** 52 ÷ 12 months = $___3466___/___2599__ (Gross/Net monthly income) **($ 867)**

Paid Weekly $ ____________ (Pay before deductions) **x** 52 weeks ÷ 12 months = $__________/_________ (Gross/Net monthly income) **( )**

Paid Bi-Weekly $ ____________ (Pay before deductions) **x** 26 ÷ 12 months = $_________/_________ (Gross/Net monthly income) **( )**

Paid Twice Month $ ____________ (Pay before deductions) **x** 2 = $_________/_________ (Gross/Net monthly income) **( )**

Self Employed $ ____________ (Annual Income) ÷ 12 months (Income from previous year's tax return before deductions) = $_________/_________ (Gross/Net monthly income) **( )**

Calculating Maximum Purchase Price – Gross/Net Income

1. Determine Monthly Debts (Total Debt-to-Income): **Difference**

$___________/__________ Gross /Net monthly Income **X** **.43%** = $__________/________ (**A**) Gross/Net Total Debts Allowed **( )**

2. Determine Maximum Front Ratio (Housing Expenses):

$__________/___________ Gross/Net monthly Income **X** ___.31___% **.28% Conv. or .31% FHA/VA** = $_________/_________ (**B**) Gross/Net Max Mortg. Payment **( )**

3. Subtract Total Debt Allowed from Maximum Mortgage Payment:

$__________/___________ Gross/Net Total Debts Allowed (A) - $___________________ Maximum Mortg. Payment (C) = $_________/_________ (**C**) Gross/Net Max. Other Debts **( )**

4. Determine Maximum Loan Amount:

$__________/___________ Gross/Net Max. Mtg. Payment (C) **X** ______41.67___ Factor – **See Chart Below** **X** **3.5** = $_________/_________ (**D**) Gross/Net Est. Max. Loan Amt. **( )**

5. Determine Maximum Purchase Price:

$_________/_____________ Gross/Net Estimated Maximum Loan Amount ÷ ___.965_______ Loan-To-Value **(.95/.90/.80 Conv.) (.965 FHA/1.00 VA)** = $_________/_________ (**E**) Gross/Net Max. Purchase Price **( )**

Factor 30 Year – 5.0% - 41.67 **5.5%** - 56.80 **6.0%** - 60.00

Mortgage Payment - PITI: Gross Income $ ________________ Net Income $________________

Exhibit B

Budget Outline – Household Monthly Spending Plan

A. Monthly Fixed Expenses					
Fixed Expenses	**Projected**	**Actual: Currently**	**Monthly Expenses**	**Projected**	**Actual: Currently**
Mortgage(s)/Rent	$	$	Car Insurance	$	$
Garbage, Sewer	$	$	Car Maintenance	$	$
Student Loan(s)	$	$	Gas/Fuel	$	$
Phone, Internet	$	$	Health Insurance	$	$
Car Payment(s)	$	$	Life Insurance	$	$
House Maintenance	$	$	Property Tax	$	$
Home Security	$	$	Child Support/Alimony	$	$
HOA/Condo Fees	$	$	Other	$	$
TOTAL (A)	$	$	Other	$	$
B. Monthly Flexible Expenses			**C. Total A + B**	$	$
Savings/Retirement	$	$			
Gas and Electric	$	$			
Cable	$	$	**D. Monthly Income**	**Gross**	**Net**
Groceries	$	$	No. 1	$	$
Lunch (work/school)	$	$	No. 2	$	$
Home Repairs	$	$	No. 3.	$	$
Public Transportation	$	$	Other Income	$	$
Eating Out	$	$	Total Net Income	$	$
Pet Care	$	$			
Clothing	$	$			
Books/Music	$	$	**E. Monthly Expenses**	$	$
Laundry/Dry Cleaning	$	$	Fixed (A)	$	$
Rental Insurance	$	$	Flexible (B)	$	$
Doctor/Dental Visit	$	$	Other Monthly (C)	$	$
Health Club/Union Dues	$	$	**Total Monthly Expenses**	$	$
Church/Charity	$	$			
Home Warranty	$	$	Difference subtracts total expenses (E) from income (D)	**Gross** $	**Net** $
Lawn Care	$	$			
Alcohol/Cigarettes	$	$	Available for additional savings or debt payoff if a positive number is calculated. If a negative number is calculated, the buyer is spending more than they make. You must review the budget thoroughly to examine where they can trim their expenses to prevent major financial problems in the future.		
Entertainment/Hobbies	$	$			
Child Care	$	$			
Credit Card(s)	$	$			
Lottery/Bingo	$	$			
Barber/Beauty Shop	$	$			
Loan	$	$			
Loan	$	$			
Other	$	$			
TOTAL (B)	$	$			